

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Alpena County Road Commission		County Alpena County	
Fiscal Year End December 31, 2007		Opinion Date May 12, 2008		Date Audit Report Submitted to State May 27, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

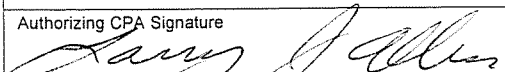
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>	Audit Communication Letter	
Other (Describe) Internal Control		<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple P.C.			Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue			City Port Huron	State MI
			Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

**ANNUAL FINANCIAL REPORT**  
**with Supplementary Information**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners  
of Alpena County  
Alpena, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Alpena County, Michigan, a component unit of Alpena County, as of December 31, 2007 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Alpena County, Michigan, as of December 31, 2007, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 12, 2008, on our consideration of the Road Commission of Alpena County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on pages 23-25 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Alpena County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

May 12, 2008

# **ALPENA COUNTY ROAD COMMISSION**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Alpena County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the Alpena County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Alpena County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Alpena County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

#### **Governmental Fund Financial Statements**

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet/statement of net assets and the governmental fund statements of revenues, expenditures, and changes in fund balance/statement of activities provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Alpena County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 to 22 of this report.

### FINANCIAL HIGHLIGHTS

#### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$33,676,567 at the end of the year.

The net assets are separated into three major components, investment in capital assets, which amounted to \$30,210,267 or 89.7% of net assets, restricted net assets of \$95,290 or 0.3% and finally unrestricted net assets of \$3,369,571 or 10.0%. The restricted net assets are the net assets that resulted from Primary Road activities and are restricted by the Michigan Department of Transportation to be used on the Primary Roads. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure). The Road Commission has no related debt used to acquire those assets that is still outstanding. The Road Commission uses the capital assets to provide services to citizens; consequently these assets are not available for future spending. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, restricted and unrestricted net assets). The Road Commission's combined net assets increased \$1,581,846 from a year ago.

The following table presents the comparison of the net assets at December 31, 2007 and 2006 in a condensed format.

#### Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>
Assets		
Current and other unrestricted assets	\$ 4,049,380	\$ 3,817,831
Capital assets	<u>30,210,267</u>	<u>28,670,738</u>
Total Assets	<u>34,259,647</u>	<u>32,488,569</u>
Liabilities		
Long-term liabilities outstanding	66,633	74,326
Other liabilities	<u>517,886</u>	<u>320,961</u>
Total Liabilities	<u>584,519</u>	<u>395,287</u>
Net Assets:		
Invested in capital assets	30,210,267	28,670,738
Restricted	95,290	95,290
Unrestricted	<u>3,369,571</u>	<u>3,327,254</u>
Total Net Assets	<u>\$ 33,675,128</u>	<u>\$ 32,093,282</u>

The following table presents a comparison of revenues, expenses and change in net assets for the year ended December 31, 2007 and 2006 in a condensed format:

### Condensed Statement of Activities

	<u>2007</u>	<u>2006</u>
Revenues		
Intergovernmental -		
Permits	\$ 18,708	\$ 34,328
Federal Sources	1,288,624	825,085
State Sources	3,800,838	3,279,228
Local Sources	629,176	354,706
Charges for Services	528,756	468,429
Interest and rents	75,745	83,514
Other	<u>94,963</u>	<u>341,909</u>
	<u>6,436,810</u>	<u>5,387,199</u>
Expenses		
Maintenance	3,447,233	2,978,298
Administration	367,894	324,006
Equipment (net)	( 696,705)	( 524,190)
Depreciation	1,725,721	1,789,286
Interest	<u>10,821</u>	<u>-</u>
	<u>4,854,964</u>	<u>4,567,400</u>
Change in Net Assets	<u>\$ 1,581,846</u>	<u>\$ 819,799</u>

### Financial Analysis of Governmental Fund Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$3,405,812, an increase of \$67,709 from the prior year. Approximately 97.2% or \$3,310,522 of the fund balance constitutes unreserved fund balance, which is available for spending at the road commission's discretion. Approximately 2.8% or \$95,290 has been reserved for expenditures related to primary roads and forest funds as required by the Michigan Department of Transportation.

### BUDGETARY HIGHLIGHTS

The Road Commission amended its 2007 budget to reflect status changes in maintenance and preservation-structural improvement projects. The final budget was \$999,333 less in expenditures than the original budget basically due to the Road Commission not purchasing all capital outlay that was budgeted.

### CAPITAL ASSETS

**Capital Assets** - The Road Commission had \$30,210,267 in capital assets at the end of the year. The reason for the increase from the previous year was the capitalization of construction/capital improvements and preservation-structural improvement, road and bridge projects funded by federal, state and local revenues.



A summary of capital assets net of accumulated depreciation at December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Land and land improvements	\$ 11,439,151	\$ 10,587,580
Buildings	812,742	842,852
Equipment	927,994	1,083,836
Infrastructure	<u>17,112,920</u>	<u>16,156,470</u>
Total Capital Assets	<u>\$ 30,210,267</u>	<u>\$ 28,670,738</u>

Additional information on the Road Commission's capital assets activity may be found in Note 8 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The majority of Commission revenue streams are fairly stable. Long-term state fiscal crisis could, however, affect local abilities to provide increased levels of maintenance. Long-term crisis could also affect cost sharing programs currently in effect with township transportation partners.

Our 2008 budget is programmed for revenues, which are flat in most areas except for a slight increase in townships seal coat revenue, decreases in federal funding for road reconstruction compared to 2007, and a slight decrease in MTF revenues.

Expenditures will increase in areas of township seal coat agreements, road equipment replacement and building repair, as well as higher operating fuel and gas expenditures. The Road Commission also has chosen to not fill employee positions as they become vacant due to retirement. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity will be reduced by \$161,000 during 2008.

### **CONTACTING THE ROAD COMMISSION MANAGEMENT**

This financial report is designed to provide a general overview of the Alpena County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Alpena County Road Commission, 1400 N. Bagley Street, Alpena, Michigan, 49707.

## **BASIC FINANCIAL STATEMENTS**

**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2007**

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,522,535	\$ -	\$ 1,522,535
Investments	1,000,000	-	1,000,000
Due from other governmental units -			
State	577,618	-	577,618
Local	315,978	-	315,978
Special assessments receivable	60,688	-	60,688
Accounts receivable	18,079	-	18,079
Prepaid items	-	79,276	79,276
Inventory	475,206	-	475,206
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	11,439,151	11,439,151
Assets being depreciated	-	18,771,116	18,771,116
Total Assets	<u>\$ 3,970,104</u>	<u>\$ 30,289,543</u>	<u>\$ 34,259,647</u>

**LIABILITIES AND FUND EQUITY**

**Liabilities:**

Accounts payable	\$ 23,317	\$ -	\$ 23,317
Accrued liabilities	90,859	-	90,859
Due to other governmental units	212,589	7,189	219,778
Deferred revenue	53,595	( 53,595)	-
Advances and deposits	183,932	-	183,932
Noncurrent liabilities -			
Due in more than one year	-	66,633	66,633
Total Liabilities	<u>564,292</u>	<u>20,227</u>	<u>584,519</u>

**Fund Balance:**

Fund Balance -			
Reserved -			
Primary roads	95,290	( 95,290)	-
Unreserved -			
Undesignated	3,310,522	( 3,310,522)	-
Total Fund Balance	<u>3,405,812</u>	<u>( 3,405,812)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 3,970,104</u>		

**Net Assets:**

Invested in capital assets net of related debt		30,210,267	30,210,267
Restricted -			
Primary roads		95,290	95,290
Unrestricted		3,369,571	3,369,571
Total Net Assets		<u>\$ 33,675,128</u>	<u>\$ 33,675,128</u>

See Notes to Financial Statements

**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>			
Permits	\$ 18,708	\$ -	\$ 18,708
Intergovernmental -			
Federal sources	1,288,624	-	1,288,624
State sources	3,800,838	-	3,800,838
Local sources	629,176	-	629,176
Charges for services	528,756	-	528,756
Interest and rents	75,745	-	75,745
Other	124,348	( 29,385)	94,963
Total Revenues	<u>6,466,195</u>	<u>( 29,385)</u>	<u>6,436,810</u>
<b>Expenditures/Expenses:</b>			
Current -			
Local construction/capacity improvements	2,761	( 2,761)	-
Primary preservation - structural improvements	2,349,568	( 2,349,568)	-
Local preservation - structural improvements	688,684	( 688,684)	-
Primary maintenance	1,420,951	( 5,388)	1,415,563
Local maintenance	1,481,336	( 5,387)	1,475,949
State maintenance	555,721	-	555,721
Administrative	375,823	( 7,929)	367,894
Equipment operations	1,343,262	( 402,667)	940,595
Less equipment rental charged			
other activities	( 1,637,300)	-	( 1,637,300)
Depreciation	-	1,725,721	1,725,721
Capital Outlay	224,644	( 224,644)	-
Less depreciation credit and retirements	( 410,596)	410,596	-
Debt Service			
Interest	3,632	7,189	10,821
Total Expenditures/Expenses	<u>6,398,486</u>	<u>( 1,543,522)</u>	<u>4,854,964</u>
Excess of revenues over expenditures/expenses	67,709	1,514,137	1,581,846
Fund Balance/Net Assets at January 1, 2007	<u>3,338,103</u>	<u>28,755,179</u>	<u>32,093,282</u>
Fund Balance/Net Assets at December 31, 2007	<u><u>\$ 3,405,812</u></u>	<u><u>\$ 30,269,316</u></u>	<u><u>\$ 33,675,128</u></u>

See Notes to Financial Statements

**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Permits	\$ 28,000	\$ 27,023	\$ 18,708	\$( 8,315)
Intergovernmental -				
Federal sources	2,104,576	1,277,102	1,288,624	11,522
State sources	3,932,664	3,780,494	3,800,838	20,344
Local sources	706,915	631,930	629,176	( 2,754)
Charges for services	425,578	519,806	528,756	8,950
Interest and rents	90,675	97,241	75,745	( 21,496)
Other	15,830	40,614	124,348	83,734
	<u>7,304,238</u>	<u>6,374,210</u>	<u>6,466,195</u>	<u>91,985</u>
<b>Expenditures:</b>				
Current -				
Local construction/capacity improvements	351	2,712	2,761	( 49)
Primary preservation - structural improvements	3,414,347	2,291,364	2,349,568	( 58,204)
Local preservation - structural improvements	840,478	669,994	688,684	( 18,690)
Primary maintenance	1,372,514	1,419,404	1,420,951	( 1,547)
Local maintenance	1,255,517	1,474,101	1,481,336	( 7,235)
State maintenance	425,578	551,999	555,721	( 3,722)
Administrative	412,888	411,429	375,823	35,606
Equipment - net	( 126,004)	( 255,635)	( 294,038)	38,403
Capital Outlay - net	( 215,505)	( 184,537)	( 185,952)	1,415
Debt Service				
Interest	-	-	3,632	( 3,632)
Total Expenditures	<u>7,380,164</u>	<u>6,380,831</u>	<u>6,398,486</u>	<u>( 17,655)</u>
Excess of revenues over (under) expenditures	( 75,926)	( 6,621)	67,709	74,330
Fund Balance at January 1, 2007	<u>3,338,103</u>	<u>3,338,103</u>	<u>3,338,103</u>	<u>-</u>
Fund Balance at December 31, 2007	<u>\$ 3,262,177</u>	<u>\$ 3,331,482</u>	<u>\$ 3,405,812</u>	<u>\$ 74,330</u>

See Notes to Financial Statements

**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting methods and procedures adopted by the Alpena County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's financial statements.

**A. Description of Road Commission Operations –**

The Alpena County Road Fund, referred to as the Road Commission, is a component unit of the County of Alpena, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eight (8) Townships in Alpena County and maintains 660 miles of state, local and primary roads.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**C. Assets, Liabilities, and Fund Balance or Net Assets –**

**Cash and Cash Equivalents** – Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Investments represent certificates of deposit with maturity from date of purchase over ninety days and are recorded at cost which approximates fair value.

**Inventories** - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the average cost which approximates market.

**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):**

**Prepaid Items** – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	50 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

**Accrued Vacation Pay** – In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

**ALPENA COUNTY ROAD COMMISSION**  
**A Component Unit of Alpena County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):**

**Deferred Revenues** – In both the government-wide and the governmental fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

**Advances From The State of Michigan** – The State of Michigan advances funds on a State maintenance agreement it has with the Alpena County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

**Equipment Rentals** – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment operations expenditures/expenses.

**Estimates** - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 3,405,812
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	46,075,539
Deduct – accumulated depreciation	( 15,865,272)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	( 66,633)



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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont'd):**

Prepaid expenses not reported in the governmental fund statements	\$ 79,276
Revenues that have been deferred in the governmental fund statements because they are not considered available	53,595
Interest not due in the current period and therefore not reported in the governmental fund statements	( 7,189)
Net Assets	<u>\$ 33,675,128</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues over expenditures - governmental fund statements	\$ 67,709
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add - capital outlay and infrastructure	3,265,657
Deduct - depreciation	( 1,725,721)
Deduct - retirements	( 407)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	( 29,385)
Prepaid expense adjustment not reported in the governmental fund statements	3,489
Accrued vacation expenses not reported in the governmental fund statements because they will not be paid with current financial resources	7,693
Interest expense adjustment not reported in the governmental fund statements	( 7,189)
Change in Net Assets	<u>\$ 1,581,846</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Auditing and Reporting –**

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

**Budgetary Compliance –**

The Road Commission Chief Financial Officer prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the expenditure control level by activity. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act. The Chief Finance Officer is authorized to transfer amounts between items of the adopted budget at year-end to reflect the effects of the distribution of the distributive account. All other amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Expenditures at these legally adopted levels in excess of the amount budgeted are a violation of the Budgeting Act. During the year ended December 31, 2007, the Road Commission had expenditures over budget as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 4 - DEPOSITS AND INVESTMENTS:**

As of December 31, 2007, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 200
Deposits with Financial Institutions	
Imprest Checking	4,501
Checking maintained by County Treasurer	1,517,834
Certificates of Deposit maintained by County Treasurer	<u>1,000,000</u>
	<u>\$ 2,522,535</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Alpena County Treasurer's Office, and in order to make disbursements, the Alpena County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

***Custodial Credit Risk – Deposits*** – is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission is in compliance with its investment policy in regards to custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts and certificates of deposit. At December 31, 2007, the carrying amount of the Road Commission's deposits is \$2,522,335, and the bank balance is \$2,600,909. As a component unit of Alpena County, all Road Commission cash is part of the accounts maintained by Alpena County, at bank institutes insured by federal deposit insurance. However, it cannot be determined to what extent the FDIC insurance applies to the Road Commission.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

**Investments –**

The Road Commission has reported certificates of deposit in the financial statements as investments since the date of maturity is greater than 90 days from the date of purchase.

**ALPENA COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 5 - SUBDIVISION STREET PAVING AND IMPROVEMENT PROGRAM:**

The amount due on Special Assessments of \$60,688 at December 31, 2007, represents the amount due on three subdivision street paving and improvement programs. The amount of \$22,482 is due from a township at large with the balance of \$38,206 due from property owners.

**NOTE 6 – INVENTORIES:**

The inventory balance of \$475,206 at December 31, 2007 consisted of \$376,623 of road materials and \$98,583 of equipment parts and materials.

**NOTE 7 - FEDERAL AWARDS:**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2007, the Road Commission of Alpena County had less than \$500,000 of applicable federal awards for local force expenditures. As result, an audit for compliance under the Single Audit Act is not required.

During 2007, the Road Commission participated in the MDOT Local Jobs Today Program. Through project contracts with MDOT, the Road Commission is not only provided “State – Jobs Today” dollars but is also provided Federal Funds, which are advanced construction dollars. MDOT administers the projects, however, the Road Commission is required to report the improvements and the related funding as revenue. Under a separate loan contract for the project, the Road Commission is committed to payment of interest and possible repayment of the advanced construction dollars (See Note 12 of the financial statements).

During 2007, the Road Commission reported \$1,197,266 in advanced federal dollars, \$236,624 in State Economic Development dollars, and \$294,075 State Jobs Today dollars relating to the “State Jobs Today” projects, which were administered by MDOT. The balance of \$91,358 in federal dollars reported was for basic contracts with MDOT and represents grant dollars expended on public road improvement projects, which were administered by MDOT, and also required to be reported by the Road Commission.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 8 - CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	Balance January 1, 2007	Additions	Deletions	Reclass and Removals	Balance December 31, 2007
Capital Assets, not being depreciated –					
Land	\$ 20,681	\$ -	\$ -	\$ -	\$ 20,681
Land improvements	10,484,480	851,450	-	-	11,335,930
Right of Ways	82,419	121	-	-	82,540
Total Capital Assets, not being depreciated	<u>10,587,580</u>	<u>851,571</u>	<u>-</u>	<u>-</u>	<u>11,439,151</u>
Capital Assets, being depreciated –					
Buildings and improvements	1,529,379	-	-	-	1,529,379
Road Equipment	4,189,648	219,889	92,469	-	4,317,068
Shop Equipment	146,746	-	-	-	146,746
Office Equipment	135,731	3,695	-	-	139,426
Engineering equipment	58,103	1,060	-	-	59,163
Yard and storage	204,365	-	-	-	204,365
Infrastructure -					
Roads	22,089,003	2,189,442	-	588,673	23,689,772
Bridges	4,396,341	-	-	407	4,395,934
Traffic signals	24,831	-	-	-	24,831
Depletable assets –					
Gravel pits	144,384	-	14,680	-	129,704
	<u>32,918,531</u>	<u>2,414,086</u>	<u>107,149</u>	<u>589,080</u>	<u>34,636,388</u>
Less – accumulated depreciation for –					
Buildings and improvements	686,527	30,110	-	-	716,637
Road Equipment	3,195,588	351,769	92,469	-	3,454,888
Shop Equipment	92,468	9,976	-	-	102,444
Office Equipment	122,970	5,480	-	-	128,450
Engineering Equipment	51,224	2,448	-	-	53,672
Yard and Storage	188,507	10,813	-	-	199,320
Infrastructure –					
Roads	8,821,154	1,224,972	-	588,673	9,457,453
Bridges	1,510,678	89,697	-	-	1,600,375
Traffic signals	21,873	456	-	-	22,329
Depletable Assets	144,384	-	14,680	-	129,704
	<u>14,835,373</u>	<u>1,725,721</u>	<u>107,149</u>	<u>588,673</u>	<u>15,865,272</u>
Total Capital Assets, being depreciated, net	<u>18,083,158</u>	<u>688,365</u>	<u>-</u>	<u>407</u>	<u>18,771,116</u>
Governmental activity capital assets, net	<u>\$ 28,670,738</u>	<u>\$ 1,539,936</u>	<u>\$ -</u>	<u>\$ 407</u>	<u>\$ 30,210,267</u>

Total Depreciation for the year ended December 31, 2007 was \$1,725,721.

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**NOTE 9 - GENERAL LONG-TERM LIABILITIES:**

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2007:

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2007</u>
Accrued vacation	\$ 74,326	\$ -	\$ 7,693	\$ 66,633

Significant details regarding outstanding long-term liabilities are presented below:

**Accrued Vacation -**

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated vacation leave under formulas and conditions specified in the contracts. The dollar amounts of these vested rights, which have been accrued on the financial statements amounts to approximately \$66,633 at December 31, 2007.

**NOTE 10 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Alpena County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Board of County Road Commissioners requires employees to contribute 0%-5.22% of their annual compensation depending on their job category. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2007 was 12.83% depending on employees' job category. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

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**NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):**

**Annual Pension Costs -**

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$171,768 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.40% per year, depending on age, attributable to merit/longevity, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. The standard amortization period to fund the unfunded liability is 30 years for positive unfunded liabilities in the 2005 valuation. This period will be reduced by one year in each of the next five annual valuations. Beginning with the 2011 valuation, the 25-year period will be reestablished with each annual valuation. The standard amortization period for negative unfunded liabilities is 10 years, with the 10-year period reestablished with each annual actuarial valuation.

**Three-Year Trend Information**

**Schedule of Employer Contributions -**

<u>Fiscal Year</u> <u>Ending</u> <u>December 31,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2005	\$ 149,010	100 %	-
2006	166,882	100	-
2007	171,768	100	-

**Schedule of Funding Progress -**

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL) Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(AAL)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll</u> <u>[(b-a)/c]</u>
2004	\$ 7,380,752	\$ 8,286,597	\$ 905,845	89	\$ 1,300,692	70 %
2005	7,619,473	8,576,072	956,599	89	1,315,932	73
2006	8,008,528	8,856,784	848,256	90	1,319,078	64

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**DECEMBER 31, 2007**

**NOTE 11 - POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 10, the Alpena County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission between the ages of 60 and 65. Expenditures for post-employment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2007 these costs amounted to approximately \$2,230 with 6 eligible participants. At 65 and above, the Road Commission contributes \$94 per month towards the cost of Medicare, paid directly to the retiree. For the year ended December 31, 2007, these costs totaled \$19,635 with 17 eligible participants.

**NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

In the normal course of its operations, the Alpena County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

The Road Commission in 2007 participated in MDOT Local Jobs Today Program contracts in which \$1,197,266 in advanced federal expenditures were made through funds borrowed by the State of Michigan (See Note 7 to the financial statements). Under contracts with MDOT, the Road Commission is committed to pay interest on the advanced funds annually until the State receives the federal funding and is able to retire the related state borrowing. Should the federal funding not be received by the State, the contracts stipulate that the Road Commission must return the applicable federal dollars. The Road Commission believes the return of federal dollars to be remote since the state fully anticipated adequate federal funding to meet the borrowed obligations.

As part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE 13 - ADVANCES AND DEPOSITS:**

Advances of \$183,932 at December 31, 2007, are advanced by the State of Michigan for working capital and equipment purchases under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance at December 31, 2007:

State -	
Trunkline maintenance	\$ 42,899
Equipment	<u>141,033</u>
	<u>\$ 183,932</u>



**ALPENA COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 14 - RISK MANAGEMENT:**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool. The "Pool" established pursuant to the laws of the State of Michigan authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commission, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Alpena County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlement claims for the last three years has not exceeded insurance coverage.

**NOTE 15 - EQUIPMENT EXPENDITURE CREDIT BALANCE:**

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions, charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The credit balance is the result of the equipment rental charged exceeding actual equipment expenditures for the year ended December 31, 2007 as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 782,800	\$ 431,032
Indirect	271,191	220,292
Operating	<u>289,271</u>	<u>289,271</u>
	1,343,262	940,595
Less-equipment rental	<u>( 1,637,300)</u>	<u>( 1,637,300)</u>
	<u><u>\$ ( 294,038)</u></u>	<u><u>\$ ( 696,705)</u></u>

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 16 – CAPITAL OUTLAY EXPENDITURES BALANCES:**

On the governmental financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The balance at December 31, 2007 consists of the following:

Capital Outlay –	
Land improvements, building	
And equipment	\$ 224,644
Less – depreciation/deletion	( <u>410,596</u> )
	<u><u>\$ ( 185,952 )</u></u>

## **SUPPLEMENTARY INFORMATION**

**ALPENA COUNTY ROAD COMMISSION**  
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**DETAIL SCHEDULE OF REVENUES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>Revenues:</b>		
Permits -	\$ 18,708	\$ 34,328
Federal Sources -		
Federal STP program	614,863	87,550
Federal D Funds	594,288	-
Other	79,473	737,535
	<u>1,288,624</u>	<u>825,085</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	2,045,287	2,050,421
Local roads	970,338	972,768
Urban roads	147,163	148,625
Snow removal	26,307	26,370
Economic Development Fund	307,668	71,044
Other	294,075	-
	<u>3,800,838</u>	<u>3,279,228</u>
Local Sources -		
Township and city contributions	619,443	346,056
County	9,733	8,650
	<u>629,176</u>	<u>354,706</u>
Charges for Services -		
Trunkline maintenance & nonmaintenance	523,546	465,000
Salvage sales	5,210	3,429
	<u>528,756</u>	<u>468,429</u>
Interest and rents	<u>75,745</u>	<u>83,514</u>
Other -		
Land and building sales	14,680	4,250
Gain on equipment disposal	5,301	134,588
Special assessments	15,719	59,901
Other	88,648	99,962
	<u>124,348</u>	<u>298,701</u>
Total Revenues	<u><u>\$ 6,466,195</u></u>	<u><u>\$ 5,343,991</u></u>

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**DETAIL SCHEDULE OF EXPENDITURES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>Expenditures:</b>		
Construction/Capacity Improvements	\$ 2,761	\$ 40
Preservation - Structural Improvements		
Primary roads and structures	2,349,568	1,272,458
Local roads and structures	688,684	449,445
	<u>3,038,252</u>	<u>1,721,903</u>
Maintenance -		
Primary roads and structures, winter and traffic control	1,420,951	1,317,164
Local roads and structures, winter and traffic control	1,481,336	1,178,634
	<u>2,902,287</u>	<u>2,495,798</u>
State Maintenance -		
Trunkline maintenance	555,721	482,821
Equipment -		
Direct	782,800	723,993
Indirect	271,191	284,882
Operating	289,271	252,481
Less - equipment rental	( 1,637,300)	( 1,398,099)
	<u>( 294,038)</u>	<u>( 136,743)</u>
Administrative -		
Administration	434,827	402,418
Less - overhead	( 52,546)	( 58,657)
- purchase discounts	( 2,058)	( 1,864)
- handling charges	( 4,400)	( 7,635)
	<u>375,823</u>	<u>334,262</u>
Capital Outlay -		
Equipment	224,644	466,097
Less - depreciation	( 410,596)	( 397,703)
- retirements	-	( 8,640)
	<u>( 185,952)</u>	<u>59,754</u>
Debt Service -		
Interest	3,632	-
Total Expenditures	<u>\$ 6,398,486</u>	<u>\$ 4,957,835</u>

**ALPENA COUNTY ROAD COMMISSION**  
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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BY FUND BALANCE SUB-ACCOUNTS**  
**GENERAL OPERATING FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
<b>Revenues:</b>				
Permits -	\$ -	\$ -	\$ 18,708	\$ 18,708
Intergovernmental -				
Federal Sources	1,288,624	-	-	1,288,624
State Sources	2,691,230	1,109,609	-	3,800,839
Local Sources	-	629,175	-	629,175
Charges for services	-	-	528,756	528,756
Interest	-	-	75,745	75,745
Other	-	30,399	93,949	124,348
Total Revenues	<u>3,979,854</u>	<u>1,769,183</u>	<u>717,158</u>	<u>6,466,195</u>
<b>Expenditures:</b>				
Construction/Capacity Improvements	-	2,761	-	2,761
Preservation - Structural Improvements	2,349,568	688,684	-	3,038,252
Maintenance	1,420,951	1,481,336	-	2,902,287
State maintenance	-	-	555,721	555,721
Equipment - net	( 117,086)	( 130,494)	( 46,458)	( 294,038)
Administrative-net	238,427	137,396	-	375,823
Capital outlay - net	-	-	( 185,952)	( 185,952)
Interest	3,632	-	-	3,632
Total Expenditures	<u>3,895,492</u>	<u>2,179,683</u>	<u>323,311</u>	<u>6,398,486</u>
Excess of revenues over (under) expenditures before optional transfers	84,362	( 410,500)	393,847	67,709
Optional Transfers	<u>( 84,362)</u>	<u>84,362</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	-	( 326,138)	393,847	67,709
Fund Balance at beginning of year	95,290	-	3,242,813	3,338,103
Inter sub-account transfer	<u>-</u>	<u>326,138</u>	<u>( 326,138)</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 95,290</u>	<u>\$ -</u>	<u>\$ 3,310,522</u>	<u>\$ 3,405,812</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of County Road Commissioners  
of Alpena County  
Alpena, Michigan

We have audited the financial statements of Alpena County Road Commission as of and for the year ended December 31, 2007, and have issued our report thereon, dated May 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Alpena County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alpena County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Alpena County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Alpena County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alpena County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Alpena County Road Commission's internal control. We consider the deficiencies described as follows to be significant deficiencies in internal control over financial reporting:

**Annual Financial Statement Preparation**

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review and determine that the financial report is accurate, however, has not elected to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission, under Statement of Auditing Standards No. 112, is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

The Road Commission has evaluated the cost versus the benefit of expanding internal controls over the preparation of the annual financial statements to include reporting in accordance with GAAP, and has determined that it is in the best interest of the Road Commission to outsource this responsibility to the external auditors. The Road Commission will continue to carefully review the draft financial statements and notes prior to approving and accepting responsibility for their content and preparation.

### **Inventory of Road Material and Equipment Parts**

With the reduction in revenue over the past years, the Road Commission has elected not to replace staff that has retired.

One of the individuals that was not replaced was in charge of the equipment stock room and the maintenance of perpetual records for the inventory of road materials and equipment parts as well as an annual physical count.

In his absence, these duties have not all be assigned resulting in controls relating to protection and accurate recording of inventory usage.

Per discussion with management, the various duties will be assigned and/or mitigating controls will be implemented to increase internal controls over inventory.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Alpena County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Alpena County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



We noted certain matters that we reported to management of the Alpena County Road Commission in a separate letter dated May 12, 2008.

This report is intended for the information and use of the management and Board of County Road Commissioners of Alpena County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

May 12, 2008



## AUDIT COMMUNICATION LETTER

May 12, 2008

To the County Road Commissioners of  
Alpena County Road Commission  
St. Ignace, Michigan

We have audited the financial statements of the Road Commission of Alpena County for the year ended December 31, 2007, and have issued our report thereon dated May 12, 2008. Professional standards require that we provide you with the following information related to our audit.

### ***Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards***

As stated in our engagement letter dated November 13, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Alpena County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Alpena County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Planned Scope and Timing of Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter, and discussions with management.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Alpena County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed in 2007. We noted no transactions entered into by the Alpena County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

As part of the implementation of GASB 34, the Road Commission was required to record infrastructure as a capital asset. As a result, the original costs of roads, bridges, traffic signals, land improvements and right-of-way had to be determined. Because the supporting data for original cost was not always available, estimates were required to be made based on available data. We evaluated the key factors and assumptions used to develop the cost estimates for infrastructure and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation is based on Michigan Department of Transportation guidelines. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

### **Adjustments Governmental Fund Financial Statements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no proposed audit adjustments, other than for two unrecorded liabilities in the amount of \$8,042, which were not recorded. Management has determined that their effects are immaterial both individually and in the aggregate, to the financial statements taken as a whole, with which we agree.

### **Assistance with GASB 34 Presentation**

As a result of our assistance with GASB 34 presentation, we proposed several entries, to the December 31, 2007 account balances to reflect the difference between the Governmental Fund and the Government-wide financial statements. These entries are described in Note 2 to the financial statements.

### **Statement on Auditing Standards No. 112**

Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in and Audit" implementation was first effective for your year end December 31, 2006. Under SAS 112 internal control over financial reporting includes the annual audited financial statements including the notes being presented in accordance with Generally Accepted Accounting Principles.

If a governmental organization relies on our firm to present the financial statements in accordance with generally accepted accounting principles, we are required to report that there is a significant deficiency in internal control. We, again, fulfilled this responsibility in your internal control letter for the year ended December 31, 2007.

A substantial portion of our clients are receiving this comment, and per discussion with other CPA firms, a substantial number of their clients are also receiving the comment. This is the result of it being the practice in the past to rely on the auditor since the annual financial report is prepared once a year and we stay current on generally accepted accounting principles. We recommended to management that the Road Commission evaluate the cost versus the benefit of expanding internal control over financial reporting to include presentation under GAAP, especially since there were no audit adjustments proposed and the Act 51 Report is prepared by the Road Commission.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 12, 2008.

### **Other Internal Control Comments**

In addition to the Report on Internal Control, we noted a few other items that although are not considered significant deficiencies could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant factors. To our knowledge, there were not such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Alpena County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of management and Board of County Road Commissioners and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

## **Attachment A**

The following item that we discussed with administration, that is not considered a significant deficiency, however, is an item that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

### **Controls over Transfer Vouchers**

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedures requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.